

## Message Text

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FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC 9631

INFO AMEMBASSY OTTAWA

AMEMBASSY KINGSTON

C O N F I D E N T I A L GEORGETOWN 0643

E.O. 11652: GDS

TAGS: EMIN, GY, CA

SUBJECT: BAUXITE: CANADIAN AND GOG VIEWS ON REYNOLDS SITUATION

REFS: (A) GEORGETOWN 0630 ; (B) GEORGETOWN 1740

SUMMARY: CANADIAN HIGH COMMISSIONER (DIER) INTIMATES GOG BECOMING RESTIVE OVER SLOW PACE OF GOG-REYNOLDS TALKS, WITH EYE ON POSSIBLE CRITICISM FROM DOMESTIC OPPOSITION TO EFFECT THIS CONSTITUTES "DISCRIMINATION" VS. ALCAN TREATMENT. GOG MINISTER ENERGY & NATURAL RESOURCES (JACK) ON OTHER HAND, IN DISCUSSING ARTICLE IN PARTY PAPER (REF (A)). AVOIDED SPECIFIC MENTION OF FURTHER TALKS WITH REYNOLDS WHILE REITERATING FIRMLY GOG OBJECTIVE IS MAJORITY OWNERSHIP OF ENTIRE BAUXITE INDUSTRY. JACK ALSO EMPHASIZED GOG DETERMINATION TO EXPAND PRODUCTION AND TO MOVE EVENTUALLY TO PRODUCTION OF ALUMINUM. END SUMMARY.

1. CONVERSATIONS DURING MY INTRODUCTORY CALLS ON DIER AND JACK INEVITABLY TOUCHED ON BAUXITE OPERATIONS IN GUYANA. DIER RAISED SUBJECT BY ASKING IF I KNEW WHEN GOG AND REYNOLDS WOULD RENEW TALKS. I SAID SO FAR AS I WAS AWARE NO DATE HAD BEEN SET. DIER THEN OBSERVED THAT SLOW PACE, AND LONG LAPSE SINCE ALCAN  
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TAKEOVER IN 1971, COULD CAUSE EMBARRASSMENT TO TRUDEAU SHOULD

DOMESTIC OPPOSITION SIEZE OPPORTUNITY TO TABLE QUESTION ON SUBJECT IN PARLIAMENT. DIER SAID GOC HAD DECLINED ALCAN REQUEST IT INTER- VENE IN GOG-ALCAN NEGOTIATIONS AS LONG AS SETTLEMENT INVOLVED PROMPT AND ADEQUATE COMPENSATION AND THERE WAS NO DISCRIMINATION IN GOG TREATMENT AS BETWEEN ALCAN AND REYNOLDS. HE SAID BURNHAM HAD GIVEN TRUDEAU ORAL ASSURANCE ON LATTER POINT AND TRUDEAU HAD SUBSEQUENTLY INFORMED PARLIAMENT OF THIS COMMITMENT.

2. DIER SAID GOC AND ALCAN HAD EXPECTED GOG WOULD INITIATE NEGOTIATIONS WITH REYNOLDS WITHIN REASONABLE TIME AND WOULD ESTABLISH SOME FORM OF TIME TABLE FOR CONCLUDING THEM. HE ACKNOWLEDGED SERIES OF FACTORS WHICH PRESUMABLY CAUSING GOG TO AVOID PRESSING REYNOLDS, I.E. PROBLEMS ENCOUNTERED IN ADMINISTER- ING GUYBAU, PRECARIOUS STATE OF GOG FINANCES, AND RELUCTANCE MAKE WAVES WHILE SEEKING LOANS FROM EXIMBANK AND US PRIVATE BANKS FOR GUYBAU EXPANSION.

3. NONETHELESS, DIER REFLECTED GOC CONCERN THAT REYNOLDS IN EFFECT GETTING BETTER BREAK THAN ALCAN. IN THIS CONNECTION, HE SAID JAMAICAN PRIMIER MANLEY, ON RECENT TOPOVER OTTAWA ENROUTE LONDON, HAD ASKED TRUDEAU TO PUT PRESSURE ON BURNHAM TO COME TO GRIPS WITH REYNOLDS. TRUDEAU, HE SAID, DEMURRED.

4. WHEN I SAW JACK APRIL 23 I ASKED WHAT PLAN GOG HAD WITH RESPECT TO RECENT PARLIAMENTARY AUTHORIZATION FOR GUYBAU TO OBTAIN US\$5 MILLION IN INTERNATIONAL FINANCING. JACK SAID THIS WAS BLANKET AUTHORIZATION TO COVER GUYBAU'S CAPITAL REQUIREMENTS THROUGH 1981. SO FAR GUYBAU HAD ONLY CONTRACTED FOR APPROXIMATELY US\$10 MILLION FROM EXIMBANK AND U.S. PRIVATE BANKS TO FINANCE TWO DRAGLINES, SCRPERs, LOADERS, AND OTHER MINING EQUIPMENT. PRECIPITATOR TO RECOVER BAUXITE DUST, SOME NEW EQUIPMENT FOR ALUMINA PLANT, ARE ALSO PLANNED FOR EARLY FINANCING. HE SAID NO FIRM PLANS YET DRAWN UP FOR CAPITAL PROJECTS REQUIRING ADDITIONAL EXTERNAL FINANCING.

5. HOWEVER, JACK WENT ON, GUYBAU AND GOG HAVE DCIDED TO CON- CENTRATE ON EXPANDING CAPACITY FOR PRODUCING CALCINED BAUXITE AND ARE PROCEEDING WITH ENGINEERING ANF FEASIBILITY STUDIES LOOKING TOWARD EVENTUAL INSTALLATION OF ALUMINUM SMELTER. THIS PROBABLY REFERS TO THE CZECH STUDY REPORTED REF (B). HE SAID CONFIDENTIAL

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THEIR ANALYSIS OF GLOBAL ALUMINUM INDUSTRY INDICATED BAUXITE WOULD PROBABLY BE IN LONG SUPPLY OVER MEDIUM-TERM AT LEAST AND THEREFORE GUYANA SHOULD MAXIMIZE ITS RETURN FROM HIGH-QUALITY BAUXITE BY SPECIALIZING IN EXPORT OF CALCINED BUT AT SAME TIME EXPLOITING LOWER GRADE DEPOSITS FOR PROCESSING INTO ALUMINUM.

6. JACK SAID GOG IS RESTUDYING UPPER MAZZARUNI HYDROELECTRIC PROJECT AND BELIEVES IT CAN DEVELOP A PLANT WITH 2200 MEGAWATT

CAPACITY AT COST OF ROUGHLY US\$150 MILLION BY CONSTRUCTING TUNNEL TO UNSPECIFIED LOCATION WHICH WOULD PROVIDE SUFFICIENT DROP THUS ELIMINATING NEED FOR DAM. LOCATION WOULD STILL REQUIRE TRANSMISSION LINE ABOUT 170 MILES LONG. SMELTER WOULD HAVE CAPACITY OF APPROXIMATELY 200 THOUSAND TONS PER YEAR, LEAVING SURPLUS OF POWER FOR OTHER USES. HE ACKNOWLEDGED THAT THEY ARE STILL LONG WAY FROM PRESENTING PROJECT TO POTENTIAL LENDERS, AND HINTED THAT THEY WOULD PROBABLY BE EXPLORING PARTNERSHIP ARRANGEMENT TO OBTAIN TECHNOLOGICAL SUPPORT.

7. I SAID I HAD NOTICED ARTICLE IN PNC PARTY ORGAN (REFTEL A). JACK SAID GOG HAD BEEN CONSISTENT IN PURSUING OBJECTIVE OF ATTAINING MAJORITY PARTICIPATION IN BAUXITE INDUSTRY. THERE SHOULD BE NO DOUBT ON THIS POINT ON PART OF REYNOLDS. HE DESCRIBED AS "MEANINGLESS" REYNOLDS OFFER LAST FEBRUARY TO FORM NEW 50-50 PARTNERSHIP TO PUT UP A US\$3.5 MILLION CALCINED BAUXITE KILN. REYNOLDS MUST REALIZE, HE SAID, THAT SUCH A PROPOSAL IS TOTALLY OUT OF PROPORTION WITH SCOPE OF GUYBAU OPERATION.

8. JACK THEN REMARKED THAT PERHAPS GOG HAD MISCALCULATED IN ALCAN NEGOTIATIONS BY SETTING A DEADLINE. HE THOUGHT THAT CONCEPT OF MINORITY SHARE HAD BEEN PSYCHOLOGICAL SHOCK TO ALCAN AT FIRST, BUT THAT WITH ANOTHER FEW MONTHS ALCAN WOULD HAVE BEEN PREPARED TO ACCEPT MINORITY PARTNERSHIP WHICH HAD BEEN GOG'S REAL OBJECTIVE IN NEGOTIATION. CONVERSATION ENDED AT THIS POINT WHEN JACK REALIZED HE WAS ABOUT TO BE LATE FOR CABINET MEETING.

9. COMMENT: I DRAW TWO CONCLUSIONS FROM FOREGOING. FIRST, THAT GOG BELIEVES TIME IS ON ITS SIDE IN REYNOLDS NEGOTIATION AND IS THEREFORE NOT PRESSING, PARTICULARLY SINCE PRESENT CIRCUMSTANCES ARE NOT ALTOGETHER FAVORABLE. SECOND, THAT EVENTUALLY REYNOLDS WILL HAVE TO FACE GOG DETERMINED TO HAVE A MAJORITY SHARE AND, BARRING RADICAL CHANGE IN WORLD ALUMINUM

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PRODUCTION/DEMAND, QUITE POSSIBLY ABLE TO FIND FINANCING AND TECHNOLOGY ELSEWHERE IF REYNOLDS IS NOT PREPARED TO GO ALONG.

AS FAR AS HYDRO POWER IS CONCERNED, WE BELIEVE A 2200 MEGAWATT FACILITY IS TOO LARGE AND COSTLY FOR GUYANA'S REQUIREMENTS. THE US\$150 MILLION FIGURE JACK QUOTED IS UNQUESTIONABLY TOO LOW, EVEN IF NO DAM WERE BUILT. MOREOVER, ASSUMING IT TAKES 9 KWH OF POWER TO PRODUCE ONE POUND OF ALUMINUM FROM ALUMINA, AT 200,000 TONS PER YEAR THE ENERGY REQUIREMENT WOULD NOT BE ANYWHERE NEAR 2200 MW, BUT RATHER SOME 632 MW. THE LATTER FIGURE ASSUMES A 65 PERCENT LOAD FACTOR, I.E. LINE DROP, VARIATIONS IN WATER PRESSURE, ETC. IN ANY EVENT PROJECT OF THIS MAGNITUDE COULD NOT MATERIALIZE UNTIL BEGINNING OF NEXT DECADE AT LEAST. KREBS

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